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03E-035 (4/3)

July 7, 2003

By Fax (202) 366-7882

Mr. George Person, Chief
Ms. Kelly Schuler, Safety Defect Analyst
Recall Management Division
National Highway Traffic Safety Administration
U.S. Department of Transportation
400 Seventh Street, SW
Washington, D.C. 20590

Re: NHTSA Identification No. 03E-035 Related to Pioneer Electronics (USA)
Inc. CPSC Informational Disclosure Regarding Car Amplifier Model GM-X972
and Other Design-Related Car Amplifiers

Dear Mr. Person and Ms. Schuler:

As discussed during your telephone conference on July 1, 2003 with our counsel, Gail Huang of Morrison & Foerster LLP, we are providing the National Highway Traffic Safety Administration ("NHTSA") with the following information regarding the above-referenced matter in response to the Initial Acknowledgement Fax Sheet issued by your office pursuant to 49 CFR Section 573.6:

1. **Name of Manufacturer:** Pioneer Electronics (USA) Inc. ("Company") is the corporate entity to be contacted with respect to the above-referenced matter, however, the entity responsible for the actual manufacture of the Model No. GM-X972 car amplifier unit is Pioneer Manufacturing De Mexico S.A. de C.V. ("PMM"), an affiliate of the Company.

Please note that, in an effort to be thorough and comprehensive in its original disclosure to the U.S. Consumer Product Safety Commission dated April 24, 2003 ("CPSC Letter"), the Company referenced certain other GM series amplifier units that each share a common engineering design with the Model No. GM-X972. Of those other four amplifier models, three were manufactured by PMM and one was manufactured using a subcontractor, GPB Electronics (HK) Limited.

Within the past week, the Company has received additional information (as more thoroughly described in the numbered paragraphs set forth below) related to the Company's GM series car amplifiers. In this regard, we wish to provide NHTSA with

the name of another car amplifier model sold by the Company — a digital unit known as Model No. GM-D500M — which was also manufactured by PMM.

2. **Product Identification:** The Company's disclosures to the U.S. Consumer Product Safety Commission ("CPSC") relate to the car amplifier unit commonly identified as Model No. GM-X972. The other car amplifier units referenced in the Company's CPSC Letter are commonly identified as Model Nos. GM-X572, GM-X574, GM-X372 and GM-X374. The additional car amplifier unit that is referenced in this letter is a digital model commonly identified as Model No. GM-D500M.

3. **Nature of Irregularity:** On March 4, 2003, the Mobile Entertainment Division of the Company received notification from one of its dealers, Best Buy, indicating that Best Buy was experiencing an atypical number of returns for Model No. GM-X972 car amplifier units. The consumer end-users who returned the amplifier units reported that the units had emitted either heat or, in some cases, the appearance of smoke. In one instance, the heat emission from a Model No. GM-X972 amplifier unit melted some of the carpet backing where the amplifier had been mounted. There were no reports of any injuries or other safety hazards due to any of the amplifier units.

Within the past few days, the Company has received new information from Best Buy that Best Buy is again experiencing customer returns for the Company's Model No. GM-X972 car amplifier units, despite the fact that such units were manufactured with the upgraded specifications designed to eliminate the irregularity described above. According to Best Buy, the returned units are again emitting heat and/or the appearance of smoke. The Company has not been made aware of any injuries or any vehicle damage associated with the subject units or any other GM series amplifiers.

Upon its receipt of this new information within the past few days, the Company immediately initiated an investigation and technical analysis of the reported circumstances. Based upon the most updated results from this analysis, it appears that the heat and/or smoke emission is attributable to a specific combination of factors which arise out of the improper installation of certain amplifier units in a vehicle.

Based upon this test analysis, the Company has decided, as a precautionary matter, to implement a comprehensive recall program which involves options for the repair/replacement/refund of the following four models of its GM series car amplifiers: Model Nos. GM-X972, GM-X572, GM-X574 and GM-D500M. A repair will be offered only for Model No. GM-X574; Model Nos. GM-X572 and GM-X972 are being discontinued, and Model No. GM-D500M was previously discontinued in April 2003. The launch of the Company's recall program for these four models is immediate — the public announcement and broadcast notification for this recall is scheduled to commence today, July 7, 2003. Please note, the recall program does not include the Company's Model Nos. GM-X372 and GM-X374 car amplifier units because repeated testing and analysis of these particular units has not resulted in any emission of heat or smoke, or in any display of any other irregularity, which is expected given their significantly lower output power.

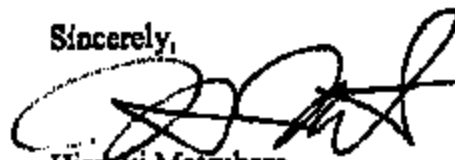
4. **Replacement Equipment or Original Equipment:** Model Nos. GM-X972, GM-X572, GM-X574, GM-X372, GM-X374 and GM-D500M (collectively, the "GM Series Amplifiers") all fall within the definition of "Original Equipment" under 49 CFR. Sec. 573.4 (i.e., all are after-market, replacement goods).

5. **Number of Car Amplifier Units Sold:** As of March 7, 2003, a total of 39,526 of the GM-Series Amplifiers were sold (net of returns) to the Company's dealers and distributors. Of this total, 26,499 units represent the number of GM Series Amplifiers sold if Model Nos. GM-X372 and GM-X374 are excluded (the two models which, as noted above, are not included in the Company's current recall program). As of July 3, 2003, a total of 35,869 of the GM-Series Amplifiers (again excluding Model Nos. GM-X372 and GM-X374) have been sold (net of returns) to the Company's dealers and distributors.

Pursuant to your discussion with Gail Huang, all of the information provided in this letter reflects information previously set forth in the CPSC Letter and is accurate as of the date of such letter, unless otherwise noted. Additional information (including relevant updates to the new information provided above) will be set forth in a supplemental letter to be forwarded to you, together with the initial quarterly report, by July 30, 2003.

Again we appreciate your cooperation and assistance with respect to this matter.

Sincerely,



Hiroaki Matsubara
President, Pioneer Electronics (USA) Inc., Mobile
Entertainment Division